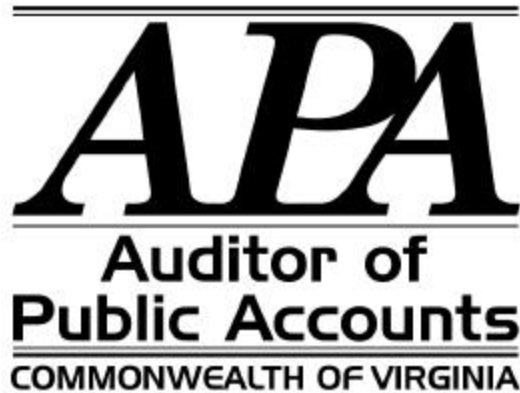


**OLD DOMINION UNIVERSITY
NORFOLK, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2002**



AUDIT SUMMARY

Our audit of Old Dominion University for the year ended June 30, 2002 found:

- the financial statements are presented fairly, in all material respects;
- internal control matters that we consider to be reportable conditions; however, we do not consider any of these to be material weaknesses;
- no instances of noncompliance that are required to be reported; and
- corrective action of prior audit findings.

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January 31, 2003

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Kevin G. Miller
Chairman, Joint Legislative Audit
and Review Commission

Board of Visitors
Old Dominion University

We have audited the accounts and records of **Old Dominion University**, as of and for the year ended June 30, 2002, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the accompanying basic financial statements of Old Dominion University, a component unit of the Commonwealth of Virginia, as of and for the year then ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Old Dominion University as of June 30, 2002, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the University has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for*

State and Local Governments, and Statement No. 35, Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities as of June 30, 2002.

The Management's Discussion and Analysis on pages 8 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Old Dominion University. The Schedule of Auxiliary Enterprises Revenues and Expenditures is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of Auxiliary Enterprises Revenues and Expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Old Dominion University as of and for the year ended June 30, 2002, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the University's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the section titled "Internal Control and Compliance Findings and Recommendations."

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in

the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Status of Prior Findings

The University has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management at an exit conference held on January 31, 2003.

AUDITOR OF PUBLIC ACCOUNTS

GML:whb
whb:60

INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Strengthen Contract Administration

A Contract Officer should represent the University in establishing legally binding contracts with outside parties and subsequent changes to those contracts. Contracts may consist of goods and construction and professional services either purchased or provided by the University. After proper negotiation and execution of a contract, the University should assign a Contract Administrator to monitor the progress of the contract and ensure that all parties are meeting established requirements. Our test work revealed the following deficiencies related to authorization and administration of contracts at the University.

- In three of six contracts reviewed, Contract Administrators changed the original contract without required approval from University officials. Contract Administrators do not have the authority to change or execute contracts. The Contract Officer should have negotiated the changes.
- In five of six contracts reviewed, Contract Administrators did not monitor contracts to ensure receipt of all deliverables.
- In four of six contracts reviewed, individuals other than the assigned contract administrators were overseeing the contracts. In one instance, the University no longer employed the assigned administrator.

The University should revise its policies and procedures regarding contract administration and take steps to ensure contract administrators understand they cannot authorize changes to contracts. Contract Officers officially delegated by the University should execute all contracts and contract changes. The University should assign an Administrator to each contract, preferably an individual familiar with the contract, and provide proper training and guidance as to the duties and responsibilities of a Contract Administrator. Training should emphasize the importance of monitoring contract activities, verification of hours billed on the invoice, and the need for supporting documentation for any material reimbursement requested.

Develop Policy and Procedures Regarding Cell Phones Issuance and Use

The University does not have written policies for the use and issuance of cell phones. The lack of written policies and procedures and adequate oversight contributed to the following deficiencies.

- The University does not have a process to track pertinent cell phone information such as the physical location of cell phones, cell phone users, justification for use, and personnel responsible for the supervisory review.
- Departments do not have the authority to enter into contractual agreements. We found several instances where University personnel inappropriately obligated the University for cell phone services. In many instances, the fees associated with these contracts were higher than negotiated state contract rates.
- Current University policy allows departments to order cell phone service directly from vendors on state contract. This policy has led to inadequate oversight of contracts, contract deliverables, and cell phone usage.

Subsequent to our audit, the University has developed a written policy governing the use and issuance of cell phones. The policy designates a Cellular Phone Contract Administrator and requires a centralized process for ordering cell phone service. We encourage the University to enforce its new policy, require training for all cell phone users and departments, and develop a process to track essential cell phone information such as physical location of cell phones, cell phone users, supervisory review, and monitoring of cell phone usage including long distance phone calls. The new written policy and enforcement of these procedures will assist the University in adhering to the Commonwealth's Procurement guidelines for procuring cell phone services.

Update the University Information Technology Security Plan

The University's Information Technology Security Plan contains policies that address physical security, environmental issues, logical security, backup and disaster recovery, and change control. Management has not updated these policies since July 2000. Since that time, the volume and nature of security issues has changed dramatically. The current policies, each having diverse components individually applying to technical staff, data owners, and end-users alike, causes a great deal of confusion, making awareness and enforcement extremely difficult. In addition, a majority of the policies do not contain a specific scope or designee of the individual charged with the responsibility of enforcing the policy. Finally, the Office of Computing and Communication Services has not identified the roles and responsibilities of essential information technology security staff including the responsibilities and duties of account management.

We recommend the University review its current policies and procedures to identify and make necessary modifications and additions. The policies and procedures should include, but not limited to, documented duties and responsibilities of information technology security staff including account management, a well-defined scope, and a designated individual responsible for compliance. We encourage the University to re-structure its current policies and organize them by role to make it easier for every member of the campus community to understand what policies directly apply to them. Completion of risk assessments and identification of all sensitive information will require the University to re-visit and update all current policies and procedures related to the Information Technology Security Plan.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OLD DOMINION UNIVERSITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities – an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions must implement GASB 35 at the same time the state government implements GASB 34.

The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements prepared by the University are: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities.

Institutional Profile

Old Dominion University is a selective admission institution. The University strives to serve those students in the immediate geographical area as well as attract students from the national and international communities. Additionally, the University seeks to attract and serve a culturally and ethically diverse student body. The University pays particular attention to identifying and admitting students who are academically gifted. As a major metropolitan university, Old Dominion University has a special commitment to serve those students who have been academically, socially, or economically disadvantaged, but who have the potential for academic success.

In addition to the main campus in Norfolk, instruction is offered at 4 Higher Education Centers in Hampton, Portsmouth, Sterling, and Virginia Beach, 50 satellite distance learning sites throughout the United States, and on multiple U.S. Naval vessels worldwide. The current enrollment of 20,100 consists of 13,524 Undergraduate and 6,576 Graduate students. This number includes 1,400 international students from 108 countries.

Statement of Net Assets

The Statement of Net Assets presents the University's Assets, Liabilities, and Net Assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2002. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

| | |
|---|----------------------|
| <u>Assets:</u> | |
| Current | \$ 44,544,225 |
| Capital, net of accumulated depreciation | 218,154,815 |
| Other non-current | <u>37,772,916</u> |
| Total assets | <u>300,471,956</u> |
| <u>Liabilities:</u> | |
| Current | 34,258,906 |
| Non-current | <u>80,721,793</u> |
| Total liabilities | <u>114,980,699</u> |
| <u>Net Assets:</u> | |
| Invested in capital assets, net of related debt | 134,799,112 |
| Restricted | 21,615,692 |
| Unrestricted | <u>29,076,453</u> |
| Total net assets | <u>\$185,491,257</u> |

Note: Prior year financial information is not available as the result of implementation of GASB Statement No. 34 during fiscal year 2002.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents a summary of Revenue and Expense activity which resulted in the change from beginning to ending Net Assets. The purpose of this statement is to present the University's operating and non-operating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission.

Non-operating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are non-operating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

| | |
|--|----------------------|
| Operating revenues: | |
| Student tuition and fees, net of scholarship allowances of \$9,517,602 | \$ 52,829,644 |
| Federal grants and contracts | 10,674,978 |
| State & nongovernmental grants and contracts | 3,236,216 |
| Auxiliary enterprises, net of scholarship allowances of \$ 4,621,090 | 32,419,752 |
| Other operating revenues | <u>2,656,318</u> |
| Total operating revenues | <u>101,816,908</u> |
| Operating expenses: | |
| Instruction | 85,328,454 |
| Research | 1,075,168 |
| Public service | 593,477 |
| Academic service | 23,922,220 |
| Student services | 7,158,951 |
| Institutional support | 18,265,775 |
| Operation and maintenance of plant | 12,018,707 |
| Depreciation | 9,163,427 |
| Scholarships and fellowships | 10,562,333 |
| Auxiliary activities | <u>23,529,115</u> |
| Total operating expenses | <u>191,617,627</u> |
| Operating loss | (89,800,719) |
| Net nonoperating revenues and expenses | <u>91,816,288</u> |
| Income before other revenues, expenses, gains or losses | 2,015,569 |
| Other revenues | <u>5,674,791</u> |
| Increase in net assets | 7,690,360 |
| Net assets- beginning of year | <u>177,800,897</u> |
| Net assets-end of year | <u>\$185,491,257</u> |

Note: Prior year financial information is not available as the result of implementation of GASB Statement No. 34 during fiscal year 2002.

The University's operating revenues reflected a slight increase for the year. Tuition and fees revenues increased as a result of an increase in tuition rate. Cost of housing and meal plans increased in addition to an increase in student occupancy. The reversion of state appropriations arising from statewide mandatory budget reductions and decreased investment earnings resulted in the slight decrease in non-operating revenues.

Overall, the University's financial position is stable. While considering the reductions in state support for the University's budget and selective increases in tuition and fees, management responded with a budget balancing plan of cost reductions and re-estimate of revenues. These actions will preserve academic and fiscal integrity operations.

Statement of Cash Flows

The Statement of Cash Flows provides relevant information that aids in the assessment of the University's ability to generate cash to meet present and future obligations and detailed information reflecting the University's sources and uses of cash during the fiscal year. The statement is presented in four defined categories: operations, non-capital financing, capital financing and investing activities.

Cash flow from operating reflects the sources and uses to support the essential mission of the University. The primary sources are tuition and fees (\$51.3 million) and auxiliary enterprise (\$36.4 million). The primary uses are payments to employees, including salaries, wages and fringe benefits (\$98.3 million), and payments to vendors (\$33.7 million).

Cash flow from non-capital financing reflects non-operating sources and uses of cash. The primary sources are state appropriations (\$90.7 million) and agency accounts (\$4.6 million). The primary use is to support cash requirements of operations.

Cash flow from capital financing activities reflects the activities related with the acquisition and construction of capital assets including related debt payments. The primary source is bond proceeds (\$29.5 million). The primary uses are purchases of capital assets (\$28.5) and debt payment (\$8.1 million).

| | |
|--|----------------------|
| Cash flows from operating activities | \$ (78,784,801) |
| Cash flows from non-capital financing activities | 90,205,483 |
| Cash flows from capital financing activities | (2,055,948) |
| Cash flows from investing activities | <u>1,728,224</u> |
| Net change in cash | <u>\$ 11,092,958</u> |

Capital Asset and Debt Administration

Overall, funds invested in capital assets reflect the ongoing substantial campus construction. Major capital projects include Ted Constance Convocation Center, Convocation Parking Garage, and the Constant Hall renovation. The Convocation Center and Constant Hall is primarily funded by capital debt and private gifts.

Major additions to capitalized asset include equipment (\$1,904,216), construction in progress (\$36,647,444) and library books (\$2,676,658). Construction for the Convocation Center was completed by planned completion date of October 2002.

The University's long-term debt increased (\$27,204,564). This increase is primarily the result of new debt for the Convocation Center and Convocation Parking Garage. As calculated, the debt service to expenditures ratio is 1.71.

Overall, uncompleted construction and other related contractual commitments decreased from \$34,667,916 at June 30, 2001 to \$1,575,325 at June 30, 2002. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statements in Notes 6, 9, and 14.

Economic Outlook

The University's economic outlook is closely tied to its role as one of the Commonwealth's Doctoral and Research higher education institutions. As such, it is largely dependent on the ongoing financial and political support from General Fund appropriations in the fiscal year 2003-2004 biennial budgets. The University's budgeted cuts were \$6.2 million for fiscal year 2003 and \$8.3 million for fiscal year 2004. These reductions were differentiated based on the historical funding of the institution. The University's Board of Visitors approved a tuition increase to offset approximately \$4 million of these reductions from the state government.

In response to the continued decline in economic forecasts, the University was asked to submit budget reduction plans ranging from seven percent to fifteen percent in anticipation of further cuts. These additional reductions, which were released on October 15, 2002, were \$7.6 million for fiscal year 2003 and \$9.0 million for fiscal year 2004. The University's Board of Visitors approved a tuition surcharge to offset approximately \$1.4 million of these reductions.

Clearly, the severity of the reductions, coupled with the historical under-funding of the University, which was determined to be approximately \$15 million annually, will have a devastating effect on the institution and its ability to adequately address the projected enrollment growth within the Commonwealth.

FINANCIAL STATEMENTS

OLD DOMINION UNIVERSITY
STATEMENT OF NET ASSETS

As of June 30, 2002

| ASSETS | |
|---|----------------|
| Current assets: | |
| Cash and cash equivalents (Note 3) | \$ 28,956,578 |
| Short-term investments (Note 3) | 2,311,245 |
| Accounts receivable, Net of allowance for doubtful accounts of \$630,175 (Note 5) | 6,990,964 |
| Appropriations Available | 3,715,224 |
| Due from the Commonwealth | 1,053,426 |
| Prepaid expenses | 112,261 |
| Inventory | 511,559 |
| Notes receivable, Net of allowance for doubtful accounts of \$74,221 | 892,968 |
| Total current assets | 44,544,225 |
| Noncurrent assets: | |
| Restricted cash and cash equivalents (Note 3) | 3,060,525 |
| Capital cash and cash equivalents (Note 3) | 772,373 |
| Endowment investments (Note 3) | 9,521,641 |
| Other long-term investments (Note 3) | 23,017,170 |
| Notes receivable, Net of allowance for doubtful accounts of \$117,552 | 1,401,207 |
| Capital assets, Net (Note 6) | 218,154,815 |
| Total noncurrent assets | 255,927,731 |
| Total assets | 300,471,956 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued expenses (Note 7) | 20,512,496 |
| Deferred revenue | 1,812,600 |
| Obligations under securities lending | 2,539,830 |
| Deposits held in custody for others | 442,063 |
| Long-term liabilities - current portion (Note 8) | 8,951,917 |
| Total current liabilities | 34,258,906 |
| Noncurrent liabilities (Note 8) | 80,721,793 |
| Total liabilities | 114,980,699 |
| NET ASSETS | |
| Invested in capital assets, Net of related debt | 134,799,112 |
| Restricted for: | |
| Nonexpendable- scholarships and fellowships | 4,057,617 |
| Expendable: | |
| Scholarships and fellowships | 5,150,609 |
| Research | 950,333 |
| Debt service | 5,751 |
| Capital projects | 5,531,191 |
| Loans | 2,882,883 |
| Departmental Uses | 3,037,308 |
| Unrestricted | 29,076,453 |
| Total net assets | \$ 185,491,257 |

The accompanying Notes to Financial Statements are an integral part of this statement.

OLD DOMINION UNIVERSITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2002

| | |
|---|-----------------------|
| Operating revenues: | |
| Student tuition and fees, Net of scholarship allowances of \$ 9,517,602 | \$ 52,829,644 |
| Federal grants and contracts | 10,674,978 |
| State grants and contracts | 1,716,475 |
| Nongovernmental grants and contracts | 1,519,741 |
| Auxilliary enterprises, Net of scholarship allowances of \$4,621,090 | 32,419,752 |
| Other operating revenues | <u>2,656,318</u> |
| Total operating revenues | <u>101,816,908</u> |
| Operating expenses: (Note 11) | |
| Instruction | 85,328,454 |
| Research | 1,075,168 |
| Public service | 593,477 |
| Academic support | 23,922,220 |
| Student services | 7,158,951 |
| Institutional support | 18,265,775 |
| Operation and maintenance of plant | 12,018,707 |
| Depreciation | 9,163,427 |
| Scholarships and fellowships | 10,562,333 |
| Auxilliary activities | <u>23,529,115</u> |
| Total operating expenses | <u>191,617,627</u> |
| Operating loss | <u>(89,800,719)</u> |
| Nonoperating revenues (expenses): | |
| State appropriations (Note 12) | 91,171,429 |
| Gifts | 3,668,431 |
| Investment income, net of investment expenses of \$216,805 | 515,067 |
| Interest on capital asset-related debt | (1,008,546) |
| Payments to Commonwealth from State appropriations | (451,800) |
| Refunded to federal government | <u>(2,078,293)</u> |
| Net nonoperating revenue | <u>91,816,288</u> |
| Income before other revenues, expenses, gains or loses | <u>2,015,569</u> |
| Capital appropriations | 3,454,784 |
| Capital gifts | <u>2,220,007</u> |
| Net other revenues | <u>5,674,791</u> |
| Increase in net assets | 7,690,360 |
| Net assets - Beginning of Year (Note 2) | <u>177,800,897</u> |
| Net assets - End of Year | <u>\$ 185,491,257</u> |

The accompanying Notes to Financial Statements are an integral part of this statement.

OLD DOMINION UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

| | |
|--|---------------------|
| Cash flows from operating activities: | |
| Student tuition and fees | \$ 53,910,179 |
| Grants and contracts | 14,826,218 |
| Auxilliary enterprises | 35,113,113 |
| Other receipts | 2,046,219 |
| Payments to employees | (98,365,821) |
| Payments to fringe benefits | (22,284,588) |
| Payments for services and supplies | (34,853,457) |
| Payments for travel | (2,751,251) |
| Payments for scholarships and fellowships | (21,441,949) |
| Payments for noncapitalized improvements and equipment | (5,722,404) |
| Loans issued to students | (154,361) |
| Collections of loans from students | 893,301 |
| Net cash used by operating activities | <u>(78,784,801)</u> |
| Cash flows from noncapital financing activities: | |
| State appropriations | 91,171,429 |
| Payments to Commonwealth from State appropriations | (451,800) |
| Gifts and grants for other than capital purposes | 3,280,291 |
| William D. Ford direct lending receipts | 41,595,723 |
| William D. Ford direct lending disbursements | (41,595,723) |
| PLUS loans receipts | 2,273,472 |
| PLUS loans disbursements | (2,273,472) |
| Refund to the federal government | (2,078,293) |
| Agency receipts | 4,624,949 |
| Agency payments | (6,341,093) |
| Net cash provided by noncapital financing activities | <u>90,205,483</u> |
| Cash flows from capital financing activities: | |
| Proceeds from capital appropriations available and investments | 6,675,804 |
| Proceeds from issuance of bonds | 32,487,064 |
| Capital appropriations | 2,882,156 |
| Capital gifts | 2,220,007 |
| Poceeds from sale of capital assets | 24,868 |
| Purchase of capital assets | (38,203,017) |
| Principal paid on capital debt, leases, and installments | (5,007,651) |
| Interest paid on capital debt, leases, and installments | (3,135,179) |
| Net cash used by capital financing activities | <u>(2,055,948)</u> |
| Cash flows from investing activities: | |
| Interest on investment | 24,575 |
| Interest on cash management | <u>1,703,649</u> |
| Net cash provided by investing activities | <u>1,728,224</u> |
| Net increase in cash | 11,092,958 |
| Cash and cash equivalents - Beginning of the year | <u>21,696,518</u> |
| Cash and cash equivalents - End of the year | \$ 32,789,476 |

OLD DOMINION UNIVERSITY
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2002

RECONCILIATION OF NET OPERATING (LOSS) TO NET CASH
USED BY OPERATING ACTIVITIES:

| | |
|---|-------------------------------|
| Operating income (loss) | \$ (89,800,719) |
| Adjustments to reconcile net loss to net cash used by operating activities: | |
| Depreciation expense | 9,163,427 |
| Changes in assets and liabilities: | |
| Receivables, net | (291,381) |
| Prepaid expenses | 119,592 |
| Inventory | 46,021 |
| Accounts payable and accrued expenses | 3,490,909 |
| Deferred revenue | <u>(1,512,650)</u> |
| Net cash used by operating activities | <u><u>\$ (78,784,801)</u></u> |
| Noncash investing, Noncapital financing, and capital and related financing transaction: | |
| Capitalization of interest expense | \$ 2,229,268 |

The accompanying Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

OLD DOMINION UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
AS OF JUNE 30, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Old Dominion University (the “University”) is a modern comprehensive university that is part of the Commonwealth of Virginia’s statewide system of public higher education. The University’s Board of Visitors, appointed by the Governor, is responsible for overseeing governance of the University. A separate report is prepared for the Commonwealth of Virginia which includes all agencies, higher education institutions, boards, commissions and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the basic financial statements of the Commonwealth.

The financial reporting entity, as defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, *The Financial Reporting Entity*, consists of the primary government organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete. The University has no component units, as defined by GASB Statement No. 14; however, the University does have related affiliated parties whose combined financial conditions are stated in Note 13. These organizations are separate legal entities from Old Dominion University and the University exercises no control over them therefore, these related parties are not included in the financial statements.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements - and Management’s Discussion and Analysis - for Public Colleges and Universities*, effective for the University’s year ended June 30, 2002, the University now follows Statement 34 requirements for “reporting by special-purpose governments engaged only in business-type activities.” The change in financial statement presentation provides a comprehensive entity-wide look at the University’s financial activities and replaces the fund-group perspective previously required.

Basis of Accounting

The financial statements of the University have been prepared using the economic resources measurement focus and the accrual basis of accounting, including depreciation expense related to capitalized fixed assets. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of related cash flows. All significant intra-agency transactions have been eliminated.

Cash and Cash Equivalents

In accordance with the GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, definition, cash and cash equivalents consist of cash on hand, money market funds, and temporary highly liquid investments with an original maturity of three months or less.

Investments

The University accounts for its investments that are purchased at fair value; investments received by gift are carried at fair value at date of acquisition in accordance with GASB Statement Number 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All investment income, including changes in the fair value of investments (unrealized gains and losses), is reported as nonoperating revenue in the Statement of Revenues, Expenses, and Changes in Net Assets.

Receivables

Receivables consist of tuition and fee charges to students and auxiliary enterprises' sales and services. Receivables also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to grants and contracts. Receivables are recorded net of estimated uncollectible amounts.

Inventories

Inventories are valued at the lower of cost (generally determined on the first-in, first-out method) or market, and consist primarily of expendable supplies held for consumption.

Capital Assets

Capital assets include land, buildings and other improvements, library materials, equipment, and infrastructure assets such as campus lighting. The University generally defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of two years except for assets acquired under the Higher Education Trust Fund which is capitalized at \$500 as required by the State Council of Higher Education. Such assets are recorded at actual cost or estimated historical cost if purchased or constructed. Library materials are valued using purchase price for library acquisitions. Donated capital assets are recorded at the estimated fair market value at the date of donation. Expenses for major capital assets and improvements are capitalized (construction in progress) as projects are constructed. Interest expense relating to construction is capitalized net of interest income earned on resources set aside for this purpose. The costs of normal maintenance and repairs that do not add to an asset's value or materially extend its useful life are not capitalized. Certain maintenance and replacement reserves have been established to fund costs relating to residences and other auxiliary activities.

Depreciation is computed using the straight-line method over the estimated useful life of the asset and is not allocated to the functional expense categories. Useful lives by asset categories are listed below:

| | |
|---------------------------------------|-------------|
| Buildings | 30-45 years |
| Other improvements and infrastructure | 7-30 years |
| Equipment | 4-15 years |
| Library materials | 5 years |

Noncurrent Cash and Investments

Cash and investments that are externally restricted to make debt service payments, reserve funds, or to purchase or construct capital and other noncurrent assets, are classified as noncurrent assets in the Statement of Net Assets.

Deferred Revenue

Deferred revenue represents revenue collected but not earned as of June 30, 2002. This is primarily comprised of revenue for student tuition accrued in advance of the semester and amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences

Employees' compensated absences are accrued when earned. The liability and expense incurred are recorded at year-end as accrued compensated absences in the Statement of Net Assets, and as a component of compensation and benefit expense in the Statement of Revenues, Expenses, and Changes in Net Assets.

Noncurrent Liabilities

Noncurrent liabilities include principal amounts of bonds payable, notes payable, installment purchase agreements, and capital lease obligations with contractual maturities greater than one year as well as estimated amounts for accrued compensated absences that will not be paid within the next fiscal year.

Net Assets

GASB Statement No. 34 requires that the Statement of Net Assets report the difference between assets and liabilities as net assets rather than fund balance. Accordingly, the University's net assets are classified as follows:

Invested in Capital Assets, Net of Related Debt – consist of total investment in capital assets, net of accumulated depreciation and outstanding debt obligations.

Restricted Net Assets – Nonexpendable – include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity.

Restricted Net Assets – Expendable – represent funds that have been received for specific purposes and the University is legally or contractually obligated to spend the resources in accordance with restrictions imposed by external parties.

Unrestricted Net Assets – represent resources derived from student tuition and fees, state appropriations, unrestricted gifts, interest income, and sales and services of educational departments and auxiliary enterprises.

Scholarship Allowances

Student tuition and fee revenues and certain other revenues from charges to students is reported net of scholarship allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship allowances are the difference between the actual charge for goods and services provided by the University and the amount that is paid by students and/or third parties on the students' behalf. Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). The alternative method is a simple proportionality algorithm that computes scholarship discounts and allowances on a university-wide basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid. Student financial assistance grants and other federal, state or nongovernmental programs are recorded as either operating or non-operating revenues in the accompanying Statement of Revenues, Expenses, and Changes in Net Assets. To the extent that revenues from these programs are used to satisfy tuition, fees, and other charges, the University has recorded a scholarship allowance.

Federal Financial Assistance Programs

The University participates in federally funded Pell Grants, Supplemental Educational Opportunity Grants (SEOG), Federal Work Study, Perkins Loans, Federal Family Education Loan Program (FFELP), which includes Stafford Loans and Parent Loans for Undergraduate Students (PLUS). Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U.S. Office of Management and Budget Revised Circular A-133, *Audit of States, Local Governments and Non-Profit Organizations*, and the Compliance Supplement.

Classification of Revenues and Expenses

The University presents its revenues and expenses as operating or non-operating based on the following criteria:

Operating revenues - include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship allowances, (2) sales and services of auxiliary enterprises, net of scholarship allowances, (3) most Federal, state and local grants and contracts and (4) interest on student loans.

Non-operating revenues - include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, and GASB Statement No. 34, such as State appropriations and investment income.

Non-operating expenses - include interest on debt related to the purchase of capital assets and losses on the disposal of capital assets. All other expenses are classified as operating expenses.

2. ACCOUNTING CHANGES AND RESTATEMENT OF NET ASSETS

Effective July 1, 2001, the University implemented GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – For*

Colleges and Universities. The financial statement presentation required by these Statements is a single-column enterprise activity rather than the fund-group perspective previously reported. Significant accounting changes in order to comply with the new requirements include adopting depreciation on capital assets, reporting revenues net of discounts and allowances, eliminating inter-fund activities, classifying activities as operating or non-operating and classifying assets and liabilities as current or non-current.

In addition, the University implemented GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. Changes in existing disclosures include more detailed information on debt service requirements, obligations under leases, and short-term debt.

NET ASSET RESTATEMENT

| | |
|---|-----------------------|
| Fund Balances as previously reported June 30, 2001 | \$ 327,615,031 |
| Implementation of GASB 34/35 | |
| Accumulated Depreciation on Capital Assets at June 30, 2001, not previously recorded | (152,239,264) |
| Restatement of capital assets, prior period adjustment | 3,308,673 |
| Federal loan balance contributions previously recorded as fund balance in loan funds, now recorded as a liability | <u>(883,543)</u> |
| Net Asset Balance at July 1, 2001 | <u>\$ 177,800,897</u> |

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

The following information is provided with respect to the credit risk associated with the University's cash and cash equivalents and investments at June 30, 2002.

A. Cash and Cash Equivalents

Pursuant to Section 2.2-1800, et seq., Code of Virginia, all state funds of the University are maintained by the Treasurer of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying Statement of Net Assets and is not categorized as to credit risk. Certain deposits also are held by the University. Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-2200, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100 percent of deposits in excess of FDLIC limits. In accordance with the GASB Statement 9 definition of cash and cash equivalents, cash represents cash with the Treasurer, cash on hand, and cash deposits including certificates of deposits and temporary investments with original maturities of three months or less.

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's

Incorporated, overnight term or open repurchase agreements, and money market funds comprised of investments which are otherwise legal investments of the University.

B. Investments

The University's investments are categorized below to give an indication of the level of credit risk assumed by the University at June 30, 2002. Credit risk is the risk that the University may not be able to obtain possession of its investment instrument or collateral at maturity. Risk category 1 includes investments which are insured or registered or for which the securities are held by the University or its safekeeping agent in the University's name. Risk category 2 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent in the University's name. Risk category 3 includes uninsured or unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the University's name. The University had no investments in categories 1 and 2. The composition and categorization of investments held by the University at June 30, 2002, follows:

| | Category 3 | Fair Value |
|--|---------------------|---------------------|
| U. S. government securities and U. S. government agent securities | \$ 2,687,451 | \$ 2,687,451 |
| Common and preferred stock | 6,311,515 | 6,311,515 |
| Corporate bonds | 1,331,841 | 1,331,841 |
| Municipal bonds | 278,171 | 278,171 |
| Total | <u>\$10,608,978</u> | <u>10,608,978</u> |
| Mutual, Money Market Funds | | 8,037,971 |
| REIT | | 179 |
| State Non-arbitrage Program Investments | 13,891,683 | |
| Securities Lending | | <u>2,311,245</u> |
| Total Investments | | <u>\$34,850,056</u> |

C. Securities Lending Transactions

Securities lending transactions represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Loaned securities, for which the collateral is reported on the Statement of Net Assets, are non-categorized as to credit risk. Details of the General Account securities lending program are included in the Commonwealth's Annual Financial Report.

4. DONOR RESTRICTED ENDOWMENTS

Investments of the University's endowment funds are pooled and consist primarily of gifts and bequests, the use of which is restricted by donor imposed limitations.

The Uniform Management of Institutional Funds Act, Code of Virginia Title 55, Chapter 15 sections 268.1-268.10, permits the spending policy adopted by the Board of Visitors to appropriate an amount of realized and unrealized endowment appreciation as the Board determines to be prudent. In determining the amount of appreciation to appropriate, the Board is required by the Act to consider such factors as long-term and short-term needs of the institution, present and anticipated financial requirements, expected total return on investments, price level trends, and general economic conditions. The amount available for spending is determined by applying a predetermined rate above the prior year spending rate. For fiscal year 2002, it was 5 ½ percent. The payout percentage is reviewed and adjusted annually as deemed prudent.

At June 30, 2002, net appreciation of \$2,697,709 is available to be spent, which is reported in the Statement of Net Assets Restricted for Non-Expendable Scholarships and Fellowships.

5. RECEIVABLES

Receivables include transactions related to accounts and notes receivable and are shown net of allowance for doubtful accounts for the year ending June 30, 2002 as follows:

| | |
|---|----------------------------|
| Student tuition and fees | \$ 2,344,894 |
| Auxiliary enterprises | 2,407,994 |
| Federal, state and nongovernmental grants and contracts | 1,976,314 |
| Other activities | <u>891,937</u> |
| Gross receivables | 7,621,139 |
| Less: Allowance for doubtful accounts | <u>630,175</u> |
| Net receivables | <u><u>\$ 6,990,964</u></u> |

6. CAPITAL ASSETS

A summary of changes in the various capital asset categories for the year ending June 30, 2002, is presented as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> |
|-------------------------------------|------------------------------|---------------------|-------------------|---------------------------|
| Nondepreciable capital assets: | | | | |
| Land | \$ 16,900,415 | \$ - | \$ - | \$ 16,900,415 |
| Construction in progress | <u>88,753,357</u> | <u>37,341,881</u> | <u>694,437</u> | <u>125,400,801</u> |
| Total nondepreciable capital assets | <u>105,653,772</u> | <u>37,341,881</u> | <u>694,437</u> | <u>142,301,216</u> |
| Depreciable capital assets: | | | | |
| Buildings | 146,982,914 | - | - | 146,982,914 |
| Infrastructure | 1,312,561 | - | - | 1,312,561 |
| Equipment | 41,055,518 | 2,327,176 | 1,083,625 | 42,299,069 |
| Improvements other than building | 6,547,865 | - | - | 6,547,865 |
| Library materials | <u>33,755,252</u> | <u>2,726,231</u> | <u>49,573</u> | <u>36,431,910</u> |
| Total depreciable capital assets | <u>229,654,110</u> | <u>5,053,407</u> | <u>1,133,198</u> | <u>233,574,319</u> |
| Less accumulated depreciation for: | | | | |
| Buildings | 87,408,844 | 3,130,355 | - | 90,539,199 |
| Infrastructure | 1,273,901 | 38,660 | - | 1,312,561 |
| Equipment | 26,932,844 | 3,345,554 | 824,760 | 29,453,638 |
| Improvements other than building | 5,293,391 | 55,729 | - | 5,349,120 |
| Library materials | <u>28,522,616</u> | <u>2,593,129</u> | <u>49,543</u> | <u>31,066,202</u> |
| Total accumulated depreciation | <u>149,431,596</u> | <u>9,163,427</u> | <u>874,303</u> | <u>157,720,720</u> |
| Depreciable capital assets, Net | <u>80,222,514</u> | <u>(4,110,020)</u> | <u>(258,895)</u> | <u>75,853,599</u> |
| Total capital assets, Net | <u>\$185,876,286</u> | <u>\$33,231,861</u> | <u>\$ 953,332</u> | <u>\$ 218,154,815</u> |

7. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

Accounts payable and accrued expenses consisted of the following at June 30, 2002:

| | |
|---|---------------------|
| Employee salaries, wages, and fringe benefits payable | \$ 6,386,778 |
| Vendors and suppliers accounts payable | <u>14,125,718</u> |
| Total current liabilities – accounts payable and accrued liabilities | <u>\$20,512,496</u> |

8. NONCURRENT LIABILITIES

The University's noncurrent liabilities consist of long-term debt (further described in Note 9) and other noncurrent liabilities. A summary of changes in noncurrent liabilities for the year ending June 30, 2002 is presented as follows:

| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Current Portion</u> |
|------------------------------------|------------------------------|---------------------|---------------------|---------------------------|----------------------------|
| Long-term debt: | | | | | |
| Revenue Bonds | \$18,416,362 | \$ - | \$ 2,516,673 | \$ 15,899,689 | \$ 2,479,927 |
| ETF Capital Leases | 2,017,787 | - | 1,428,763 | 589,024 | 589,024 |
| Notes Payable | <u>33,100,000</u> | <u>32,210,000</u> | <u>1,060,000</u> | <u>64,250,000</u> | <u>2,145,000</u> |
| Total Long-term Debt | <u>53,534,149</u> | <u>32,210,000</u> | <u>5,005,436</u> | <u>80,738,713</u> | <u>5,213,951</u> |
| Accrued Compensated Absences | 5,282,898 | 2,694,346 | 2,542,780 | 5,434,464 | 3,737,966 |
| Federal Loan Program | | | | | |
| Contributions | 883,543 | - | - | 883,543 | - |
| Capital projects retainage payable | <u>894,689</u> | <u>2,543,714</u> | <u>821,413</u> | <u>2,616,990</u> | <u>-</u> |
| Total Long-term Liabilities | <u>\$ 60,595,279</u> | <u>\$37,448,060</u> | <u>\$ 8,369,629</u> | <u>\$ 89,673,710</u> | <u>\$ 8,951,917</u> |

9. LONG TERM DEBT

The University has issued two categories of bonds pursuant to Section 9 of Article X of the *Constitution of Virginia*. Section 9(d) bonds are revenue bonds, which are limited obligations of the University payable exclusively from pledged general revenues and are not debt of the Commonwealth of Virginia, legally, morally, or otherwise. Pledged general fund revenues include general fund appropriations, tuition and fees, auxiliary enterprise revenues, and other revenues not required by law to be used for another purpose. The University issued 9(d) bonds directly through underwriters and also participates in the Public Higher Education Financing Program (Pooled Bond Program) created by the Virginia General Assembly in 1996. Through the Pooled Bond Program, the Virginia College Building Authority (VCBA) also issues 9(d) bonds and uses the proceeds to purchase debt obligations (notes) of the University and various other institutions of higher education. The University's general revenue also secures these notes.

Section 9(c) bonds are general obligation bonds issued by the Commonwealth of Virginia on behalf of the University which are secured by the net revenues of the completed project and the full faith, credit, and taxing power of the Commonwealth of Virginia.

| Description | Interest Rates (%) | Maturity | Outstanding Balance at June 30, 2002 |
|--|--------------------|-----------|--------------------------------------|
| Revenue bonds: | | | |
| Dormitory: | | | |
| Series 1983a | 3.00 | 2013 | \$ 1,725,000 |
| Series 1983b | 3.00 | 2013 | 1,655,000 |
| Series 1992r | 5.00 - 5.70 | 2003 | 545,372 |
| Series 1993r | 3.60 - 4.50 | 2003 | 130,841 |
| Series 1993r | 3.75 - 4.90 | 2004 | 150,517 |
| Recreation: | | | |
| Series 1993r | 3.75 - 4.90 | 2004 | 401,379 |
| Series 1993r | 3.60 - 4.50 | 2003 | 345,794 |
| Series 1993r | 3.60 - 5.00 | 2010 | 3,486,268 |
| Science: | | | |
| Series 1993r | 3.60 - 4.50 | 2003 | 116,823 |
| Series 1993r | 3.75 - 4.90 | 2004 | 135,466 |
| Smalls, Series 1993r | 3.75 - 5.20 | 2008 | 183,938 |
| Parking, Series 1993b | 3.60 - 5.00 | 2010 | 2,740,904 |
| Student center: | | | |
| Series 1993r | 3.60 - 5.00 | 2011 | 3,928,617 |
| Series 1996r | 4.75 | 2003 | <u>353,770</u> |
| Total revenue bonds | | | <u>15,899,689</u> |
| Notes payable: | | | |
| Classrooms: | | | |
| Series 1997a | 3.75 - 5.00 | 2018 | 9,075,000 |
| Series 1999a | 4.75 - 6.00 | 2020 | 835,000 |
| Recreation: | | | |
| Series 1997a | 3.75 - 5.00 | 2018 | 4,730,000 |
| Series 1999a | 4.75 - 6.00 | 2020 | 935,000 |
| Series 2000a | 4.25 - 5.75 | 2021 | 4,850,000 |
| Series 2001a | 3.00 - 5.00 | 2022 | 24,655,000 |
| Parking: | | | |
| Series 1997a | 3.75 - 5.00 | 2018 | 1,695,000 |
| Series 1999a | 4.75 - 6.00 | 2020 | 1,380,000 |
| Series 2000a | 4.25 - 5.75 | 2021 | 8,540,000 |
| Series 2001a | 3.00 - 5.00 | 2022 | <u>7,555,000</u> |
| Total notes payable | | | <u>64,250,000</u> |
| Capital Leases: | | | |
| Higher education equipment trust fund leases payable | Various | 2002-2003 | <u>589,024</u> |
| Total | | | <u><u>\$ 80,738,713</u></u> |

Long-term debt matures as follows:

| | <u>Principal</u> | <u>Interest</u> |
|-----------|---------------------|----------------------|
| 2003 | \$ 5,213,951 | \$ 3,686,223 |
| 2004 | 4,477,563 | 3,458,939 |
| 2005 | 3,950,165 | 3,293,700 |
| 2006 | 4,105,281 | 3,131,750 |
| 2007 | 4,276,249 | 2,955,310 |
| 2008-2012 | 21,775,504 | 11,667,824 |
| 2013-2017 | 19,940,000 | 6,717,241 |
| 2018-2022 | <u>17,000,000</u> | <u>1,903,500</u> |
| Total | <u>\$80,738,713</u> | <u>\$ 36,814,487</u> |

Equipment Trust Fund Program

The Equipment Trust Fund (ETF) program was established to provide state-supported institutions of higher education bond proceeds for financing the acquisition and replacement of instructional and research equipment. The Virginia College Building Authority (VCBA) manages the program. The VCBA issues bonds and uses the proceeds to reimburse the University and other institutions of higher education for equipment purchased. For fiscal years prior to 1999, the VCBA purchased the equipment and leased it to the University. For fiscal years 1999 and following, financing agreements for ETF were changed so that the University now owns the equipment from the date of purchase.

The Statement of Net Assets line "Due from the Commonwealth" includes \$982,985 for equipment purchased by the University that was not reimbursed by the VCBA at year-end.

10. AUXILIARY ACTIVITIES

Auxiliary operating revenues and expenses are distributed as shown in the following table for the year ending June 30, 2002. Additionally the University used auxiliary revenues to pay debt service and capital improvements of \$6,750,305 and \$2,688,311, respectively. Those amounts are not included in the auxiliary operating expenses.

Revenues:

| | |
|--|-------------------|
| Room contracts (net of \$ 1,658,633 scholarship allowances) | \$ 6,897,350 |
| Food service contracts (net of \$ 84,598 scholarship allowances) | 343,909 |
| Comprehensive fees (net of \$ 2,877,859 scholarship allowances) | 14,858,534 |
| Other student fees and sales and services | <u>10,319,959</u> |

Total auxiliary enterprises revenues \$ 32,419,752

Expenses:

| | |
|----------------------------|------------------|
| Residential facilities | \$ 6,031,490 |
| Dining operations | 9,613 |
| Athletics | 8,847,303 |
| Other auxiliary activities | <u>8,640,709</u> |

Total auxiliary enterprises expenses \$ 23,529,115

11. EXPENSES BY NATURAL CLASSIFICATION

The following table shows a classification of expenses both by function as listed in the Statement of Revenues, Expenses, and Changes in Net Assets and by natural classification, which is the basis for amounts shown in the Statement of Cash Flows.

| | Salaries, Wages, and Fringe Benefits | Non-Personal Services/ Supplies | Scholarships and Fellowships | Plant and Equipment | Depreciation | Total |
|--|---|---------------------------------------|------------------------------------|------------------------|---------------------|----------------------|
| Instruction | \$ 72,801,212 | \$ 12,001,115 | \$ - | \$ 526,127 | \$ - | \$ 85,328,454 |
| Research | 310,373 | 764,795 | - | - | - | 1,075,168 |
| Public service | 448,231 | 129,548 | - | 15,698 | - | 593,477 |
| Academic support | 14,679,759 | 6,398,984 | - | 2,843,477 | - | 23,922,220 |
| Student services | 5,265,989 | 1,774,247 | - | 118,715 | - | 7,158,951 |
| Institutional support | 13,049,689 | 4,079,297 | - | 1,136,789 | - | 18,265,775 |
| Operation and maintenance of plant | 6,460,282 | 5,166,935 | - | 391,490 | - | 12,018,707 |
| Depreciation expense | - | - | - | - | 9,163,427 | 9,163,427 |
| Scholarship and fellowships | 4,053 | 30,251 | 10,528,029 | - | - | 10,562,333 |
| Auxiliary activities | <u>10,485,989</u> | <u>12,368,354</u> | <u>-</u> | <u>674,772</u> | <u>-</u> | <u>23,529,115</u> |
| Total | <u>\$123,505,577</u> | <u>\$ 42,713,526</u> | <u>\$10,528,029</u> | <u>\$5,707,068</u> | <u>\$ 9,163,427</u> | <u>\$191,617,627</u> |

12. STATE APPROPRIATIONS

The University receives state appropriation from the General Fund of the Commonwealth. The Appropriation Act specifies that unexpended appropriations shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursement.

The following is a summary of state appropriations received by the University including all supplemental appropriations and reversions:

| | |
|--|-----------------------------|
| Original legislative appropriation per Chapter 1073: | |
| Educational and general programs | \$ 85,141,256 |
| Student financial assistance | 8,298,593 |
| Supplemental adjustments: | |
| Central Fund Appropriation Transfers | (812,597) |
| ARC to sister schools | (113,750) |
| Health insurance premium | 804,132 |
| Deferred compensation match | 308,347 |
| VRS adjustment | (471,273) |
| Library grant | 13,572 |
| VMASC battle lab simulation facility | 452,200 |
| Financial assistance from SCHEV funds | 155,812 |
| Reversion to the General Fund of the Commonwealth | <u>(2,604,863)</u> |
| Adjusted appropriation | <u><u>\$ 91,171,429</u></u> |

13. AFFILIATED FOUNDATIONS

The financial statements do not include the assets, liabilities, and net assets of the Old Dominion Research Foundation, the Old Dominion Educational and Real Estate Foundation, and the Old Dominion Intercollegiate Foundation. The purpose of these organizations is to operate for the benefit of the University. These organizations are separately incorporated entities and the related financial statements are examined by other auditors. The following condensed summary is based solely upon the reports of other auditors.

| | Research Foundation at June 30, 2002 | Educational and Real Estate Foundation at December 31, 2001 | Intercollegiate Foundation at December 31, 2001 |
|-------------------------------------|---|---|--|
| Assets: | | | |
| Cash and investments | \$ 6,433,773 | \$ 82,501,584 | \$ 1,191,728 |
| Other assets | <u>10,642,145</u> | <u>17,704,107</u> | <u>5,171,720</u> |
| Total assets | <u><u>\$ 17,075,918</u></u> | <u><u>\$ 100,205,691</u></u> | <u><u>\$ 6,363,448</u></u> |
| Liabilities and net assets: | | | |
| Liabilities | \$ 5,857,896 | \$ 20,627,504 | \$ 291,474 |
| Net assets | <u>11,218,022</u> | <u>79,578,187</u> | <u>6,071,974</u> |
| Total liabilities and net assets | <u><u>\$ 17,075,918</u></u> | <u><u>\$ 100,205,691</u></u> | <u><u>\$ 6,363,448</u></u> |

The aggregate revenues and expenditures of the Educational and Real Estate, and Intercollegiate Foundations, determined as if in consolidation with the University were \$17,827,765 and \$19,692,225

respectively, for the year ended December 31, 2001. The aggregate revenues and expenditures of the Research Foundation determined as if in consolidation with the University were \$34,204,862 and \$33,004,282, respectively for the year ended June 30, 2002.

The total contribution to Old Dominion University from the Educational and Real Estate, and Intercollegiate Foundations was \$3,227,138 for the year ended December 31, 2001.

14. COMMITMENTS

At June 30, 2002 the University was a party to construction and other contracts totaling approximately \$4,192,315 of which \$2,616,990 has been incurred.

The University is committed under various operating leases for equipment and space. In general, the equipment leases are for a two-year term and the space leases are for three to four year terms with appropriate renewal options for each type of lease. In most cases, the University expects that in the normal course of business, these leases will be replaced by similar leases. Rental expense was approximately \$4,771,526 for the year ended June 30, 2002.

The University has, as of June 30, 2002, the following future minimum rental payments due under the above leases:

| Year Ending June 30 | Operating Lease Obligation |
|------------------------|-------------------------------|
| 2003 | \$ 402,903 |
| 2004 | 269,357 |
| 2005 | 10,656 |
| 2006 | 7,870 |
| 2007-2011 | <u>44,980</u> |
| Total | <u>\$ 735,766</u> |

15. RETIREMENT PLANS

Virginia Retirement System

Employees of the University are employees of the Commonwealth of Virginia. Substantially all full-time classified salaried employees of the University participate in the defined benefit retirement plan administered by the Virginia Retirement System (VRS). VRS is an agent multiple-employer public employee retirement system (PERS) that acts as a common investment and administrative agency for the Commonwealth of Virginia and its political subdivisions.

The VRS does not measure assets and pension benefit obligations separately for individual state institutions. Therefore, all information relating to this plan is available at the statewide level only and can be found in the Commonwealth's *Comprehensive Annual Financial Report* (CAFR). The Commonwealth of Virginia, not the University, has the overall responsibility for contributions to this plan. The CAFR provides disclosure of the Commonwealth's unfunded pension benefit obligation at June 30, 2002. The same report contains historical trend information showing VRS's progress in accumulating sufficient assets to pay benefits when due.

Optional Retirement Plans

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed contribution programs where the retirement benefits received are based upon employer contributions of 5.40 percent and employee contributions of 5 percent and interest and dividends. Individual contracts issued under the plans provide for full and immediate vesting of both University and employee contributions. Total pension costs under these plans were approximately \$3,546,164 for the year ended June 30, 2002. Contributions to other retirement plans were calculated using the base salary amount of approximately \$34,097,728.

16. POST-RETIREMENT BENEFITS

The Commonwealth participates in the VRS-administered statewide group life insurance program, which provides post-employment life insurance benefits to eligible retired and terminated employees. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the state's health plan. Information related to these plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

17. CONTINGENCIES

A. Grants and Contracts

The University has received grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditures of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the University.

In addition, the University is required to comply with the various federal regulations issued by the Office of Management and Budget. Failure to comply with certain requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2002, the University estimates that no material liabilities will result from such audits or questions.

B. Litigation

The University has been named as a defendant in a number of lawsuits. The final outcome of these lawsuits cannot be determined at this time. However, management is of the opinion that any ultimate liability to which the University may be exposed will not have a material effect upon the University's financial position.

18. RISK MANAGEMENT

The University is exposed to various risks of loss related to torts; theft or, damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The University participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care and worker's compensation plans are administered by the Department of Human Resource Management and the risk management insurance plans are administered by the Department of

Treasury, Division of Risk Management. Risk management insurance includes property, general liability, medical malpractice, faithful performance of duty bond, automobile, and air and watercraft plans. The University pays premiums to each of these departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth's *Comprehensive Annual Financial Report*.

SUPPLEMENTARY INFORMATION

OLD DOMINION UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2002

| | Residential Facilities | Dining Services | University Stores | Va Beach Development | Student Activities |
|---|---------------------------|--------------------|----------------------|-------------------------|-----------------------|
| Operating revenues: | | | | | |
| Student fees | \$ - | \$ - | \$ - | \$ 488,262 | \$ 1,747,516 |
| Sales and services | 8,555,983 | 428,507 | 111,355 | 1,077,655 | 172,246 |
| Private gifts, grants, and contracts | - | - | - | - | - |
| Proceeds from Securities Lending Program | - | - | - | - | - |
| Rental and other income | - | - | 463,232 | - | - |
| Gross operating revenues | 8,555,983 | 428,507 | 574,587 | 1,565,917 | 1,919,762 |
| Cost of sales | - | - | - | - | - |
| Net operating revenues | 8,555,983 | 428,507 | 574,587 | 1,565,917 | 1,919,762 |
| Operating expenditures: | | | | | |
| Personal services | 2,091,243 | - | - | - | 1,065,065 |
| Contractual services | 3,298,280 | 9,613 | 25,766 | - | 690,808 |
| Equipment | 272,196 | - | 1,319 | - | 84,396 |
| Supplies and materials | 369,771 | - | 3,356 | - | 143,831 |
| Scholarships | - | - | - | - | - |
| Total operating expenditures | 6,031,490 | 9,613 | 30,441 | - | 1,984,100 |
| Excess (deficiency) of revenues over operating expenditures | 2,524,493 | 418,894 | 544,146 | 1,565,917 | (64,338) |
| Nonoperating revenue: | | | | | |
| Private gifts | - | - | - | - | - |
| Mandatory transfers - Debt service | (1,235,826) | - | - | (896,071) | (7,410) |
| Nonmandatory transfers (to)/from other funds | (137,872) | (172,233) | (526,156) | (20,811) | 108,779 |
| Total transfers | (1,373,698) | (172,233) | (526,156) | (916,882) | 101,369 |
| Net increase (decrease) in fund balances | 1,150,795 | 246,661 | 17,990 | 649,035 | 37,031 |
| Fund balances (deficit) at beginning of year | 4,670,030 | 815,289 | 80,251 | 1,787,606 | (178,695) |
| Fund balances (deficit) at end of year | \$5,820,825 | \$1,061,950 | \$ 98,241 | \$ 2,436,641 | \$ (141,664) |

| Webb Center | Parking | East Side Development | Athletic Programs | Auxiliary Other ** | General Fee Reserve | Total |
|----------------|--------------|--------------------------|----------------------|-----------------------|---------------------------|---------------|
| \$ 2,158,962 | \$ - | \$ 4,005,450 | \$ 10,664,645 | \$ 1,601,940 | \$ - | \$ 20,666,775 |
| 157,409 | 2,543,146 | 375,624 | 831,394 | 1,775,754 | 24,448 | 16,053,521 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | 79,028 | 79,028 |
| - | - | - | - | - | - | 463,232 |
| 2,316,371 | 2,543,146 | 4,381,074 | 11,496,039 | 3,377,694 | 103,476 | 37,262,556 |
| - | - | - | 12,000 | - | - | 12,000 |
| 2,316,371 | 2,543,146 | 4,381,074 | 11,484,039 | 3,377,694 | 103,476 | 37,250,556 |
| 791,217 | 457,600 | - | 4,043,263 | 2,051,033 | - | 10,499,421 |
| 703,220 | 725,934 | 221,090 | 2,511,810 | 1,064,352 | 96,527 | 9,347,400 |
| 21,273 | 26,098 | - | 216,236 | 53,254 | - | 674,772 |
| 171,909 | 27,620 | - | 317,025 | 193,573 | - | 1,227,085 |
| - | - | - | 1,758,969 | - | - | 1,758,969 |
| 1,687,619 | 1,237,252 | 221,090 | 8,847,303 | 3,362,212 | 96,527 | 23,507,647 |
| 628,752 | 1,305,894 | 4,159,984 | 2,636,736 | 15,482 | 6,949 | 13,742,909 |
| - | - | - | 379,890 | - | - | 379,890 |
| (597,845) | (575,662) | (2,505,822) | (930,446) | (1,223) | - | (6,750,305) |
| (136,595) | (539,692) | (274,608) | (1,294,578) | 278,480 | 26,975 | (2,688,311) |
| (734,440) | (1,115,354) | (2,780,430) | (2,225,024) | 277,257 | 26,975 | (9,438,616) |
| (105,688) | 190,540 | 1,379,554 | 791,602 | 292,739 | 33,924 | 4,684,183 |
| 1,217,249 | 4,057,078 | 9,447,334 | 2,298,761 | 197,857 | 657,621 | 25,050,381 |
| \$ 1,111,561 | \$ 4,247,618 | \$ 10,826,888 | \$ 3,090,363 | \$ 490,596 | \$ 691,545 | \$ 29,734,564 |

OLD DOMINION UNIVERSITY
Norfolk, Virginia

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